

**CITY OF AVOCA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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CITY OF AVOCA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Pigsley	Mayor	January 2012
Jennie Maassen	Mayor Pro-Tem	January 2012
Fred Miller III	Council Member	January 2012
John Butcher	Council Member	January 2014
Jerry Espeseth	Council Member	January 2014
David Hoffmann	Council Member	January 2014
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	City Treasurer	Appointed yearly
David Larson	City Attorney	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

December 2, 2011

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

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Iowa
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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Avoca's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .


December 2, 2011
Page Two

To the Honorable Mayor and
Members of the City Council:

In accordance with *Government Auditing Standards*, I have also issued my report dated December 2, 2011 on my consideration of the City of Avoca's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11, and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Avoca's basic financial statements. The financial statements for the year ended June 30, 2007, (which is not presented herein), was audited by another auditor who expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 M. J. Murphy, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Avoca provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 16%, or approximately \$418,000, from fiscal year 2010 to fiscal year 2011.

Disbursements of the City's governmental activities increased 59%, or approximately \$1,235,000 in fiscal year 2011 from fiscal year 2010.

The City's total cash basis net assets decreased 18% or approximately \$700,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$94,000 and the assets of the business type activities decreased approximately \$606,000.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Road Use Tax and Urban Renewal Tax Increment, Library Trust 3) the Permanent Fund, and 4) the Capital Projects Funds, such as the Street Improvement Project and Club House Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds. The Both Funds are considered a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$94,000 to \$2,560,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2011
Receipts:	
Program receipts:	
Charges for services	\$ 392,374
Operating grants, contributions and restricted interest	518,865
Capital grants, contributions and restricted interest	521,885
General receipts:	
Property tax	720,334
Tax increment financing	418,980
Local option sales tax	271,985
Unrestricted investment earnings	26,425
Miscellaneous	85,856
License and permits	13,632
Sale of property	2,586
Total receipts	<u>2,972,922</u>
Disbursements:	
Public safety	187,990
Public works	300,591
Culture and recreation	619,520
Community and economic development	676,364
General government	235,642
Debt service	274,630
Capital projects	1,046,835
Total disbursements	<u>3,341,572</u>
Change in cash basis net assets before transfers	(368,360)
Transfers, net	<u>274,819</u>
Change in cash basis net assets	(93,831)
Cash basis net assets, beginning of year	<u>2,653,318</u>
Cash basis net assets, end of year	<u>\$ 2,559,487</u>

The cash basis of net assets of the City's governmental activities decreased 18.43%, or approximately \$700,000, due primarily to an increase in capital projects.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2011
Receipts:	
Program receipts:	
Charges for services and sales:	
Water	\$ 313,443
Sewer	231,208
Operating grants, contributions and restricted interest	
Capital grants, contributions, debt And restricted interest	1,135,234
Total receipts	<u>1,679,885</u>
Disbursements:	
Water	1,110,958
Sewer	900,280
Total disbursements	<u>2,011,238</u>
Change in cash basis net assets before transfers	(331,353)
Transfers, net	<u>(274,818)</u>
Change in cash basis net assets	(606,171)
Cash basis net assets, beginning of year	<u>1,144,927</u>
Cash basis net assets, end of year	<u>\$ 538,756</u>

Total business type activities receipts for the fiscal year were approximately \$1,680,000 compared to approximately \$1,118,000 last year. The cash balance decreased approximately \$606,000 from the prior year primarily due to the Storm Sewer improvement capital project fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Avoca completed the year, its governmental funds reported a combined fund balance of \$2,559,487, a decrease of \$93,831 from last year's total of \$2,653,318.

The General Fund cash balance decreased \$2,532 from the prior year to \$605,245.

The Special Revenue Fund, Road Use Tax Fund cash balance increased \$18,506 to \$280,572.

The Debt Service Fund cash balance remained at \$-0- from the prior year. Principal and interest payments were \$274,630, tax receipts were \$37,314, the general fund transferred in \$257,860.

The Capital Projects Fund, Club House Project and the Street Improvement Capital Projects receipts included a \$521,885 in grants, and \$278,250 in transfers from other funds which offset combined project construction costs of \$577,749.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Water and Sewer Fund cash balance decreased \$606,171 to \$538,576, primarily due to the Storm Sewer Improvement Capital Project Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 8, 2011 and increased budgeted receipts for a grants and debt proceeds and increased disbursements for capital projects.

The City's receipts were \$697,892 less than budgeted. This was in part due to delays in the grant receipts.

The City's disbursements were \$1,180,762 less than budgeted. This was primarily due to delays in the storm sewer improvement project.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,330,926 in bonds and notes outstanding, compared to \$1,471,041 last year, as shown below.

Outstanding Debt at Year-End	
	Year Ended June 30, 2011
General obligation notes	\$ <u>1,330,926</u>

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,390,926 is significantly below its constitutional debt limit of approximately \$4.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Avoca's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2012. The mill levy remained at \$14.06994 for the 2012 fiscal year.

If these estimates are realized, the City's budgeted cash balance is expected to decreased approximately \$485,000 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clint Fichter, City Manager, at 201 N. Elm Street, Avoca, Iowa 51521.

BASIC FINANCIAL STATEMENTS

CITY OF AVOCA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 187,990	\$ 24,983	\$ 71,432	\$ -0-
Public works	300,591	98,898	61,343	464,881
Cultures and recreation	619,520	192,482	57,004	-0-
Community and economic development	676,364	-0-	104,540	-0-
General government	235,642	89,643	288,046	-0-
Debt service	274,630	-0-	-0-	-0-
Capital projects	1,046,835	-0-	-0-	-0-
Total governmental activities	3,341,572	406,006	582,365	464,881
Business type activities:				
Water	1,110,958	313,443	-0-	-0-
Sewer	900,280	231,208	-0-	-0-
Total business type activities	2,011,238	544,651	-0-	-0-
Total	\$ 5,352,810	\$ 950,657	\$ 582,365	\$ 464,881

Property taxes levied for:

- General purposes
- Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted investment earnings
- Miscellaneous
- Sale of assets
- Note proceeds
- Transfers
- Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net assets

Expendable:

- Streets
- Urban renewal
- Debt service
- Other purposes

Unrestricted

Total cash basis net assets

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>					
<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>	
<u>Activities</u>		<u>Activities</u>			
\$	(91,575)	\$	-0-	\$	(91,575)
	324,531		-0-		324,531
	(370,034)		-0-		(370,034)
	(571,824)		-0-		(571,824)
	142,047		-0-		142,047
	(274,630)		-0-		(274,630)
	(1,046,835)		-0-		(1,046,835)
	<u>(1,888,320)</u>		<u>-0-</u>		<u>(1,888,320)</u>
	-0-		(797,515)		(797,515)
	-0-		(669,072)		(669,072)
	<u>-0-</u>		<u>(1,466,587)</u>		<u>(1,466,587)</u>
	(1,888,320)		(1,466,587)		(3,354,907)
	742,887		-0-		742,887
	37,214		-0-		37,214
	418,980		-0-		418,980
	212,218		-0-		212,218
	19,929		4,898		24,827
	85,857		517,394		603,251
	2,586		-0-		2,586
	-0-		612,942		612,942
	274,818		(274,818)		-0-
	<u>1,794,489</u>		<u>860,416</u>		<u>2,654,905</u>
	(93,831)		(606,171)		(700,002)
	<u>2,653,318</u>		<u>1,144,927</u>		<u>3,798,245</u>
\$	<u>2,559,487</u>	\$	<u>538,756</u>	\$	<u>3,098,243</u>
\$	300,603	\$	-0-	\$	300,603
	217,067		-0-		217,067
	-0-		-0-		-0-
	1,436,572		8,976		1,445,548
	605,245		529,780		1,135,025
\$	<u>2,559,487</u>	\$	<u>538,756</u>	\$	<u>3,098,243</u>

See notes to financial statements.

CITY OF AVOCA

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 395,877	\$ 143,926	\$ -0-	\$ -0-
Tax-increment financing	-0-	-0-	418,980-	-0-
Other city tax	-0-	-0-	-0-	212,218
Licenses and permits	13,632	-0-	-0-	-0-
Use of money and property	19,929	-0-	-0-	-0-
Intergovernmental	352,982	-0-	104,540	-0-
Charges for services	392,374	-0-	-0-	-0-
Special assessments	910	-0-	-0-	-0-
Miscellaneous	48,037	1,814	-0-	-0-
Total receipts	<u>1,223,741</u>	<u>145,740</u>	<u>523,520</u>	<u>212,218</u>
Disbursements:				
Operating:				
Public safety	167,114	-0-	-0-	-0-
Public works	265,133	-0-	-0-	-0-
Culture and recreation	548,640	-0-	-0-	-0-
Community and economic development	9,929	-0-	666,435	-0-
General government	194,585	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	<u>1,185,401</u>	<u>-0-</u>	<u>666,435</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	38,340	145,740	(142,915)	212,218
Other financing sources (uses):				
Sale of assets	2,586	-0-	-0-	-0-
Note proceeds	-0-	-0-	-0-	-0-
Operating transfers in	367,643	61,462	442,720	-0-
Operating transfers out	(411,101)	(188,696)	(325,943)	(216,254)
Total other financing sources (uses)	<u>(40,872)</u>	<u>(127,234)</u>	<u>116,777</u>	<u>(216,254)</u>
Net change in cash balances	(2,532)	18,506	(26,138)	(4,036)
Cash balances, beginning of year	<u>607,777</u>	<u>262,066</u>	<u>243,205</u>	<u>452,403</u>
Cash balances, end of year	<u>\$ 605,245</u>	<u>\$ 280,572</u>	<u>\$ 217,067</u>	<u>\$ 448,367</u>
Cash Basis Fund Balances				
Restricted for:				
Urban renewal purposes	\$ -0-	\$ -0-	\$ 217,067	\$ -0-
Debt service	-0-	-0-	-0-	-0-
Streets	-0-	280,572	-0-	-0-
Other purposes	-0-	-0-	-0-	448,367
Unassigned	605,245	-0-	-0-	-0-
Total cash basis fund balances	<u>\$ 605,245</u>	<u>\$ 280,572</u>	<u>\$ 217,067</u>	<u>\$ 448,367</u>

See notes to financial statements.

EXHIBIT B

	Library Trust	Permanent Library Trust Endowment	Capital Projects- Street Improvement	Capital Projects- Club House	Other Non-major Governmental Funds	Total
\$	-0-	\$ -0-	\$ -0-	\$ -0-	\$ 180,531	\$ 720,334
	-0-	-0-	-0-	-0-	-0-	418,980
	-0-	-0-	-0-	-0-	59,767	271,985
	-0-	-0-	-0-	-0-	-0-	13,632
	-0-	6,496	-0-	-0-	-0-	26,425
	-0-	-0-	464,881	57,004	61,343	1,040,750
	-0-	-0-	-0-	-0-	-0-	392,374
	-0-	-0-	-0-	-0-	-0-	910
	3,600	-0-	30,495	-0-	1,000	84,946
	<u>3,600</u>	<u>6,496</u>	<u>495,376</u>	<u>57,004</u>	<u>302,641</u>	<u>2,970,336</u>
	-0-	-0-	-0-	-0-	20,876	187,990
	-0-	-0-	-0-	-0-	35,458	300,591
	3,034	-0-	-0-	20,653	47,193	619,520
	-0-	-0-	-0-	-0-	-0-	676,364
	-0-	-0-	-0-	-0-	41,057	235,642
	-0-	-0-	-0-	-0-	274,630	274,630
	-0-	-0-	577,749	-0-	469,086	1,046,835
	<u>3,034</u>	<u>-0-</u>	<u>577,749</u>	<u>20,653</u>	<u>888,300</u>	<u>3,341,572</u>
	566	6,496	(82,373)	36,351	(585,659)	(371,236)
	-0-	-0-	-0-	-0-	-0-	2,586
	-0-	-0-	-0-	-0-	-0-	
	-0-	-0-	-0-	278,250	531,557	1,681,632
	-0-	(8,544)	-0-	-0-	(256,275)	(1,406,813)
	<u>-0-</u>	<u>(8,544)</u>	<u>-0-</u>	<u>278,250</u>	<u>275,282</u>	<u>277,405</u>
	566	(2,048)	(82,373)	314,601	(310,377)	(93,831)
	270,500	269,894	102,404	-0-	445,069	2,653,318
\$	<u>271,066</u>	<u>267,846</u>	<u>20,031</u>	<u>314,601</u>	<u>134,692</u>	<u>2,559,487</u>
\$	-0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 217,067
	-0-	-0-	-0-	-0-	-0-	-0-
	-0-	-0-	20,031	-0-	-0-	300,603
	271,066	267,846	-0-	314,601	134,692	1,436,572
	-0-	-0-	-0-	-0-	-0-	605,245
\$	<u>271,066</u>	<u>267,846</u>	<u>20,031</u>	<u>314,601</u>	<u>134,692</u>	<u>2,559,487</u>

CITY OF AVOCA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for services	\$ 313,443	\$ 231,208	\$ 544,651
Special assessment	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	313,443	231,208	544,651
Operating disbursements:			
Business type activities	655,949	621,410	1,277,359
Total disbursements	655,949	621,410	1,277,359
Operating income	(342,506)	(390,202)	(732,708)
Non-operating receipts (disbursements):			
Interest	1,122	3,776	4,898
Intergovernmental	135,531	381,863	517,394
Miscellaneous	-0-	-0-	-0-
Debt Service Proceeds	-0-	612,942	612,942
Debt Service Disbursements	(455,009)	(278,870)	(733,879)
Total non-operating receipts (disbursements)	(318,356)	719,711	401,355
Excess of receipts over disbursements	(660,862)	329,509	(331,353)
Other financing sources (uses):			
Operating transfer in	-0-	-0-	-0-
Operating transfer out	(129,099)	(145,719)	(274,818)
Other financing sources (uses)	(129,099)	(145,719)	(274,818)
Net change in cash balance	(789,961)	183,790	(606,171)
Cash balances, beginning of year	960,571	184,356	1,144,927
Cash balances, end of year	\$ 170,610	\$ 368,146	\$ 538,756
Cash Basis Fund Balances			
Reserve for utility deposits	\$ 8,976	\$ -0-	\$ 8,976
Unrestricted	161,634	368,146	529,780
Total cash basis fund balances	\$ 170,610	\$ 368,146	\$ 538,756

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies

The City of Avoca is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Avoca has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Water and Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Avoca maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As of June 30, 2011, disbursements exceed amounts budgeted in the community and economic development function.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City as collected on a monthly basis.

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2011, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$3,098,243 as of June 30, 2011.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2012	\$ 147,219	\$ 51,287
2013	153,524	47,103
2014	160,183	41,825
2015	75,000	36,005
2016	75,000	33,380
2017	80,000	30,755
2018	80,000	27,555
2019 & after	560,000	90,385
Total	\$ 1,330,926	\$ 358,295

The Code of Iowa requires that principal and interest on general obligation bonds and notes be paid from the Debt Service Fund. However, \$5,681 of general obligation note interest was paid from the Water Revenue Fund.

The City has a general obligation debt limit of approximately \$4.3 million which was not exceeded during the year ended June 30, 2011.

General Obligation Corporate Purpose and Refunding Bond, May 1, 2009

On May 1, 2009, the City issued bonds to finance water projects and to refund a prior bond issue. The \$1,450,000 bonds bear interest ranging from 1.75% to 4.6%, requires semiannual installments of interest and annual retirements of bonds (ranging from \$110,000 to \$75,000 annually), and matures June 1, 2024.

General Obligation Fire Equipment Note, 2009

On January 15, 2009, the City financed the purchase of fire equipment with a local bank. The \$160,000 note bears interest at 5.00%, requires annual installments of \$36,959, and matures June 1, 2014.

**CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(3) Bonds and Notes Payable (Continued)

Sewer Revenue Bond, 1991

On November 19, 1991, the City financed a sewer improvement project. The \$219,000 note bears interest ranging from 3.00% to 4.62%, and matured June 1, 2011.

Water Revenue Bond, 2010

On June 1, 2010, the City financed a water improvement project. The \$600,000 note bears interest ranging from 2.00 % to 3.8%, and matures June 1, 2019.

Storm Water Revenue Note, 2010

On December 10, 2010, the City financed a storm sewer improvement project with USDA Rural Development. The \$412,000 note bears interest at 3.00% requires annual installments of principle and interest of 27,695, and matures December 1, 2020.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 was \$25,924.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick time termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>June 30, 2011</u>
Vacation	\$ 9,972
Sick time	21,506
	<u>\$ 31,478</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$-0- during the year ended June 30, 2011. The City had transactions between the City and relatives of appointed City board members totaling 855,352. Of this total, \$813,795 was from awarded contracts through competitive bidding.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in the past three fiscal years.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue-Emergency	3,620
General Fund	Water Enterprise	\$ 45,000
General Fund	Sewer Enterprise	47,817
Special Revenue-Road Use	General Fund	61,642
Special Revenue-Urban Renewal	Special Revenue-Road Use	225,407
Special Revenue-Urban Renewal	Special Revenue-Local Option	180,522
Special Revenue-Urban Renewal	General Fund	36,613
Capital Projects	Special Revenue-Urban Renewal	202,186
Capital Projects	General Fund	278,250
Capital Projects	Sewer Enterprise	53,976
Capital Projects	Special Revenue-Hotel/Motel	5,535
General Fund-Pool	Special Revenue-Local Option	15,542
General Fund-Pool	Special Revenue-Hotel/Motel	85,694
General Fund-Golf	Special Revenue-Hotel/Motel	161,425
Special Revenue-Employee Benefit	Sewer Enterprise	12,000
Debt Service	Special Revenue-Local Option	20,189
Debt Service	Special Revenue-Urban Renewal	121,645
Debt Service	Water Enterprise	84,099
Debt Service	Sewer Enterprise	31,926
Special Revenue-Library Trust	Permanent Fund-Library	8,544
Total		\$ <u>1,681,632</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AVOCA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 720,334	\$ -0-
Tax increment financing	418,980	-0-
Other city tax	271,985	-0-
Licenses and permits	13,632	-0-
Use of money and permits	26,425	-0-
Intergovernmental	1,040,750	-0-
Charges for services	392,374	544,651
Special assessments	910	-0-
Miscellaneous	84,946	-0-
Total receipts	<u>2,970,336</u>	<u>544,651</u>
Disbursements:		
Public safety	187,990	-0-
Public works	300,591	-0-
Health and social services	-0-	-0-
Culture and recreation	619,520	-0-
Community and economic development	676,364	-0-
General government	235,642	-0-
Debt service	274,630	-0-
Capital projects	1,046,835	-0-
Business type	-0-	1,277,359
Total disbursements	<u>3,341,572</u>	<u>1,277,359</u>
Excess (deficiency) of receipts over (under) disbursements	(371,236)	(732,708)
Other financing sources, net	<u>277,405</u>	<u>126,537</u>
Excess (deficiency) of receipts and other financing sources	(93,831)	(606,171)
Balance beginning of year	<u>2,653,318</u>	<u>1,144,927</u>
Balance end of year	<u>\$ 2,559,487</u>	<u>\$ 538,756</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 720,334	\$ 538,903	\$ 538,903	\$ 181,431
418,980	423,985	423,985	(5,005)
271,985	270,054	239,250	32,735
13,632	7,500	10,324	3,308
26,425	50,000	37,225	(10,800)
1,040,750	1,248,424	1,760,731	(719,981)
937,025	913,215	848,488	88,537
910	-0-	-0-	910
84,946	28,500	353,973	(269,027)
<u>3,514,987</u>	<u>3,480,581</u>	<u>4,212,879</u>	<u>(697,892)</u>
187,990	216,846	217,889	29,899
300,591	298,944	587,755	287,164
-0-	3,200	3,200	3,200
619,520	466,269	626,914	7,394
676,364	616,000	608,500	(67,864)
235,642	251,754	257,499	21,857
274,630	165,844	320,364	45,734
1,046,835	608,990	1,231,490	184,655
1,277,359	1,424,362	1,946,082	668,723
<u>4,618,931</u>	<u>4,052,209</u>	<u>5,799,693</u>	<u>1,180,762</u>
(1,103,944)	(571,628)	(1,586,814)	482,870
<u>403,942</u>	<u>-0-</u>	<u>826,812</u>	<u>(422,870)</u>
(700,002)	(571,628)	(760,002)	60,000
<u>3,798,245</u>	<u>3,798,245</u>	<u>3,798,245</u>	<u>3,798,245</u>
\$ <u>3,098,243</u>	\$ <u>3,266,617</u>	\$ <u>3,038,243</u>	\$ <u>3,828,245</u>

CITY OF AVOCA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$2,385,492 and disbursements by \$2,573,866. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF AVOCA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Emergency	Employee Benefits	Hotel-Motel Tax
Receipts:			
Property tax	\$ 3,620	\$ 139,697	\$ -0-
Other city tax	-0-	-0-	59,767
Intergovernmental	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	3,620	139,697	59,767
Disbursements:			
Operating:			
Public safety	-0-	20,876	-0-
Public works	-0-	35,458	-0-
Culture and recreation	-0-	47,193	-0-
Community and economic development	-0-	-0-	-0-
General government	-0-	41,057	-0-
Capital projects	-0-	-0-	-0-
Debt service	-0-	-0-	-0-
Total disbursements	-0-	144,584	-0-
Excess (deficiency) of receipts over (under) disbursements	3,620	(4,887)	59,767
Other financing sources (uses):			
Operating transfers in	-0-	12,000	-0-
Operating transfers out	(3,620)	-0-	(252,655)
Net financing sources (uses)	(3,620)	12,000	(252,655)
Net change in cash balances	-0-	7,113	(192,888)
Cash balances beginning of year	-0-	5,730	192,888
Cash balances end year	\$ -0-	\$ 12,843	\$ -0-
Cash Basis Fund Balances			
Restricted for other purposes	\$ -0-	\$ 12,843	\$ -0-
Total cash basis fund balances	\$ -0-	\$ 12,843	\$ -0-

See Accompanying Independent Auditor's Report

SCHEDULE 1

Capital Projects	Permanent		Debt Service	Total
	Perpetual Care	Cemetery Trust		
\$ -0-	\$ -0-	\$ -0-	\$ 37,214	\$ 180,531
-0-	-0-	-0-	-0-	59,767
61,343	-0-	-0-	-0-	61,343
-0-	1,000	-0-	-0-	1,000
61,343	1,000	-0-	37,214	302,641
-0-	-0-	-0-	-0-	20,876
-0-	-0-	-0-	-0-	35,458
-0-	-0-	-0-	-0-	47,193
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	41,057
469,086	-0-	-0-	-0-	469,086
-0-	-0-	-0-	274,630	274,630
469,086	-0-	-0-	274,630	888,300
(407,743)	1,000	-0-	(237,416)	(585,659)
261,697	-0-	-0-	257,860	531,557
-0-	-0-	-0-	-0-	(256,275)
261,697	-0-	-0-	257,860	275,282
(146,046)	1,000	-0-	20,444	(310,377)
163,546	35,343	68,006	(20,444)	445,069
\$ 17,500	\$ 36,343	\$ 68,006	\$ -0-	\$ 134,692
\$ 17,500	\$ 36,343	\$ 68,006	\$ -0-	\$ 134,692
\$ 17,500	\$ 36,343	\$ 68,006	\$ -0-	\$ 134,692
\$ 17,500	\$ 36,343	\$ 68,006	\$ -0-	\$ 134,692

CITY OF AVOCA
SCHEDULE OF INDEBTEDNESS

JUNE 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
General Obligation Corporate			
Purpose and Refunding Bonds	December 1, 2009	1.75 to 4.60%	\$ 1,450,000
Fire Equipment Note	January 15, 2009	5.00%	\$ 160,000
Revenue Bonds			
Sewer	November 18, 1991	3.00 to 4.62%	\$ 219,000
Water	June 1, 2010	2.00 to 3.80%	\$ 600,000
Revenue Note			
Water	December 30, 2010	3.00%	\$ 412,000
Water Purchase Loan			
Regional Water	August 12, 2003	4.625%	4 792,952

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,340,000	\$ -0-	\$ 110,000	\$ 1,230,000	\$ 48,455	\$ 3,855
131,041	-0-	30,115	100,926	6,844	420
15,000	-0-	15,000	-0-	450	-0-
600,000	-0-	60,000	540,000	17,870	1,389
-0-	412,000	-0-	412,000	-0-	7,179
433,908	-0-	433,908	-0-	9,292	-0-
<u>\$ 2,519,949</u>	<u>\$ 412,000</u>	<u>\$ 649,023</u>	<u>\$ 2,282,926</u>	<u>\$ 82,911</u>	<u>\$ 12,843</u>

CITY OF AVOCA
DEBT MATURITIES

JUNE 30, 2011

General Obligation Notes and Bonds

Year Ending June 30,	General Obligation Issued December 1, 2009		Fire Equipment Note Issued January 15, 2009		Water Revenue Bond Issued June 1, 2010	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2012	2.25%	\$ 115,000	5.00%	\$ 31,927	2.00%	\$ 60,000
2013	3.00%	120,000	5.00%	33,524	2.00%	65,000
2014	3.25%	125,000	5.005	35,475	3.00%	65,000
2015	3.50%	75,000	--	-0-	3.00%	65,000
2016	3.50%	75,000	--	-0-	3.00%	70,000
2017	4.00%	80,000	--	-0-	3.80%	70,000
2018	4.00%	80,000	--	-0-	3.80%	70,000
2019 & After	4.10 - 4.60%	560,000	--	-0-	3.80%	75,000
Total		<u>\$ 1,230,000</u>		<u>\$ 100,926</u>		<u>\$ 540,000</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 3

Year Ending June 30,	Water Revenue Note Issued Dec. 30, 2010		Total
	Interest Rate	Amount	
2012	3.00%	\$ 15,335	\$ 222,262
2013	3.00%	15,795	234,319
2014	3.00%	16,269	241,744
2015	3.00%	16,757	156,757
2016	3.00%	17,260	162,260
2017	3.00%	17,777	167,777
2018	3.00%	18,310	168,310
2019 & After	3.00%	294,497	929,497
Total		\$ 412,000	\$ 2,282,926

CITY OF AVOCA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS

	2011	2010	2009	2008
Receipts:				
Property taxes	\$ 720,334	\$ 515,901	\$ 463,378	\$ 470,134
Tax increment financing	418,980	356,038	376,994	335,857
Other city taxes	271,985	229,927	248,477	242,142
License and permits	13,632	10,262	9,448	8,233
Use of money and property	26,425	53,673	71,805	90,522
Intergovernmental	1,040,750	877,836	665,689	422,422
Charges for service	937,025	695,086	771,609	669,273
Special assessments	910	280	-0-	-0-
Miscellaneous	84,946	174,467	159,043	92,510
Total	\$ 3,514,987	\$ 2,913,470	\$ 2,766,443	\$ 2,331,093
Disbursements:				
Operating:				
Public safety	\$ 187,990	\$ 282,802	\$ 396,606	\$ 202,304
Public works	300,591	382,256	381,302	747,914
Health and social services	-0-	850	800	216
Culture and recreation	619,520	512,666	416,794	510,303
Comm and economic dev	676,364	269,654	296,758	289,162
General government	235,642	227,355	238,624	291,594
Debt service	274,630	217,022	697,282	221,791
Capital projects	1,046,835	1,181,476	301,287	-0-
Business type	1,277,359	649,785	435,878	408,896
Total	\$ 4,618,931	\$ 3,723,866	\$ 3,165,331	\$ 2,672,180

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

December 2, 2011

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARD

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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated December 2, 2011. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Avoca's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Avoca's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control over financial reporting I consider to be a material weakness.

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To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-11 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Avoca's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .

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To the Honorable Mayor and
Members of the City Council

The City of Avoca's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Avoca's responses, I did not audit the City of Avoca's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Avoca and other parties to whom the City of Avoca may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Avoca during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

M. J. Murphy Associates, CPA, P.C.

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-11 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city administrator, full time city clerk and a part time office clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be monitored and amended timely in the future, if applicable.

Conclusion - Response accepted.

**CITY OF AVCOA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-B-11 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or relatives of City officials for the year ended June 30, 2011 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Osbahr Gravel, relative of Library Board member Melody Lippold and Park Board member Rodney Osbahr	Trucking	\$ 2,917
Avoca Journal Herald, relative of Library Board member Melissa Nielson	Publications, advertising and subscriptions	4,676
McCarthy Trenching, relative of Library Board member Kris McCarthy and Urban Renewal Board member Robert McCarthy	Water & sewer repairs	26,904
McCarthy Trenching, relative of Library Board member Kris McCarthy and Urban Renewal Board member Robert McCarthy	Construction contracts	813,795
McCarthy Landscaping, relative of Library Board member Kris McCarthy and Urban Renewal Board member Robert McCarthy	Landscaping	7,060
		<u>\$ 855,352</u>

**CITY OF AVCOA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

II-D-11 Business Transactions(continued)

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Board members may represent a conflict of interest since total transactions with the individual were greater than \$2,500 during the fiscal year.

The transactions involving construction contracts do not appear to represent a conflict of interest since they were entered into through competitive bidding.

Recommendation - The City should consult legal council to determine a course of action to resolve the issue.

Response - We will do this.

Conclusion - Response accepted.

- II-E-11 Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-11 Council Minutes** - No transactions were found that I believe should have been approved in the Council minutes but were not.

There were one instance where there was no record that Council Board minutes were published and two instances where Council Board minutes were not signed by appropriate personnel.

Recommendation - The City Clerk should make sure that the Board minutes are published after each meeting and the required signature are obtained..

Response - We will adhere to the reporting requirements as required by then Code of Iowa in the future.

Conclusion - Response accepted.

- II-G-11 Deposits and Investments** - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-H-11 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges were substantiated.

Recommendation - Disbursements should be substantiated with appropriate documentation.

Response - Debit/credit card charges will be appropriately substantiated in the future.

Conclusion - Response accepted.

II-I-11 Payment of General Obligation Notes - Interest on the General Obligation Corporate Purpose and Refunding Bond was paid from the Water Enterprise Fund rather than the debt service fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from the water enterprise fund to the debt service fund for future funding contributions. Payment of interest should then be disbursed from the debt service fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

